

Summary of Public Comments  
Drinking Water State Revolving Fund (DWSRF) Policy Amendment  
Comment Period: December 5, 2018 to December 21, 2018

Commenter	Summary of Comments	SWRCB Response to Comments
<b>(1) City of Fresno Department of Public Utilities - A letter received 12/6/2018 included comments (a) and (b) while a letter received 12/17/2018 included comment (c)</b>	(a) Recommends the addition of SGMA - Critically High and Medium High Risk Defined Basin Criteria Prioritization for funding and placement on the Comprehensive/Fundable Lists	DWSRF funding is focused on direct benefits to public water systems. Projects that include other priorities can be submitted for consideration. The DWSRF Policy provides flexibility for the Deputy Director of DFA to add projects to the Fundable List during the State Fiscal Year that are ready to proceed to a funding agreement.
	(b) Requests the addition of a tab on the State Water Resources Control Board (SWRCB) website defining necessary federal documents for inclusion in construction specifications regarding the current Davis-Bacon, MBE/WBE, and Buy America requirements. The Davis-Bacon tab would have an explanation of the current requirements for inclusion in construction specifications, a link to the Department of Labor Website, and a contact person. The MBE/WBE tab would have an explanation of current requirements for inclusion in construction specifications, DBE Compliance Guidelines, current documents and formwork for inclusion in construction specifications, and a contact person. The Buy America tab will would have an explanation of the current requirements for inclusion in construction specifications, documents or formwork for inclusion in construction specifications, and a contact person.	Information regarding Davis-Bacon, MBE/WBE (now called Disadvantaged Business Enterprise or DBE), and American Iron and Steel or AIS (no longer Buy America) have been posted on the State Water Board website. Staff will work with stakeholders and look into organizing these web pages to make it more user friendly.
	(c) Suggests that municipalities or other entities that have been approved for multiple projects are allowed to transfer remaining funds from one project to another to streamline the process of completion for multiple funded projects	Thank you for the suggestion. Staff are investigating how to coordinate prorammmatic financing on a statewide basis with multiple agencies.
<b>(2) The City of San Diego Debt Management Department</b>	(a) Welcomes a transparent method of project prioritization but recommends an explanation of how to calculate the sustainability score	<p>The Sustainability Score, also known as a Bonus Score per Section VI.B.2.b, is based characteristics of the applicant or the project. A project can be awarded two bonus points - one (1) point for each of the following characteristics:</p> <ul style="list-style-type: none"> <li>• Project benefits a disadvantaged community or a severely disadvantaged community</li> <li>• Project will result in Consolidation or extension of service to a disadvantaged community or a severely disadvantaged community that is not being served by a PWS</li> </ul> <p>Projects with a higher aggregate bonus score will receive priority over other projects within the same Priority Category.</p>

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<b>(2) The City of San Diego Debt Management Department (cont.)</b>	(b) Supportive of the 1.0x minimum requirement for subordinate debt but is not supportive of the proposed coverage formula because it is needlessly complicated	The proposed changes in debt service coverage were developed in conjunction with the DWSRF program's Financial Advisor. Staff believes the proposed formula is simpler and clearer than the current formula. The difference between the new formula and the existing formula is that now the senior and parity debt coverage is separate from overall coverage level. The net revenue calculation requires an increase to cover the senior and parity debt, but this is offset by a decreased coverage ratio for those that choose to subordinate more debt relative to their SRF debt. Staff will work with applicants to ensure that they understand the coverage requirement.
	(c) The City is disappointed to learn of the requirement for new debt be the same lien position as the Existing Debt. They feel the requirement is overreaching and is intended to restrain the City in managing its debt portfolio and creates an unnecessary burden in structuring its future debt financings. They stated that substantially, all of the City's Water System revenue bonds and Commercial Paper notes are issued subordinate to the State Revolving Fund loans and that the City's Water System has maintained financial flexibility by issuing substantially all obligations on a subordinate lien basis. The City may not be willing to accept the subject proposed term which would place undue restriction on financial flexibility.	Staff has added the words "or lower" in the following sections of the proposed Policy: X(A)(4)c(iii)(A) & XI(A)(4)(c)(iv)(A)  "(A) The new debt refunds or refinances Existing Debt with the same <u>or lower</u> lien position as that Existing Debt."
	(d) Supports the decision to eliminate the requirement for the applicant to submit a resolution or ordinance adopted by its governing body at the time of application, and rather provide a resolution authorizing the Loan transaction at closing	Thank you for the support.
	(e) Welcomes SWRCB decision to remove requirements to applicant's non-subordinate debt to be rated "A" or higher by at least two of the nationally recognized rating agencies	Thank you for the support.
	(f) In Section XII.C.3, proposes replacing the word "sufficient" with a defined period of time under Section XII.C.3 to be more concise and clear	The advanced notice period is defined in the funding agreement. This gives staff more flexibility for modifying the time period in the future or setting it for individual projects.
	(g) The discussion of the Rate Stabilization Fund transfer, Section XVI.E.2, appears to be in conflict with the Drinking Water SRF Appendix E Section A.2.a.iv	Staff do not see a conflict here. To clarify, Rate Stabilization Fund transfers are not included as System Revenues during the initial credit review, but subsequently can be included in the debt service calculation to meet Debt Service Coverage during repayment.

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<b>(2) The City of San Diego Debt Management Department (cont.)</b>	(h) Recommends clarifying the term in Section VI.D.1 "ready to proceed to financing" such that the intent of the Division to select projects is not arbitrary.	Ready to proceed to financing indicates that an applicant has submitted a complete application and Division staff have determined that an application meets all of the requirements of the DWSRF Policy. Given the capacity of the DWSRF to fund all ready to proceed projects at present, the Division believes the current priority system provides adequate guidance to staff to allocate resources effectively. The Division will continue to work with stakeholders on adjusting the priority system in the future to ensure that financial and programmatic resources are used effectively.
<b>(3) Leadership Counsel for Justice and Accountability; Community Water</b>	(a) Thanks the Board for the opportunity to comment on the proposed Amendment to the Policy for Implementing the DWSRF. Acknowledges positive developments that have occurred since adoption of the 2014 Policy. Appreciate the expanded objective to "prevent future" public health risk.	Thank you for the support.
	(b) Appreciate the inclusion of the definition of an Extended Small Community Water Systems	Thank you for the support.
	(c) Appreciate the inclusion of public schools as SDACs needing principal forgiveness	Thank you for the support.
	(d) Recommends that soft costs for government approvals and community engagement be included in eligible costs for consolidation projects	These costs are considered eligible as "Consolidation Project Costs" per Section XI.B.1.c.
	(e) Notes extended financing will help lessen the financial burden of paying off a state loan but any financing to SDACs must always be in the form of principal forgiveness as the repayment of the loan can cause water rates to become unaffordable	SWRCB specifies in its Intended Use Plan how it will utilize the limited principal forgiveness it receives and will do its best to maximize the benefit provided to eligible water systems of said funds. Currently, small SDACs are provided financial assistance in the form of grants or principal forgiveness to the maximum extent possible. Any loans offered to small SDACs are only offered to the extent it is found that the small SDAC is able to afford the loan and associated payments while maintaining the system.
	(f) Supportive of the addition of test wells as an eligible cost	Thank you for the support.
	(g) Appreciative of the change in requirements from a 20-year rate study to a 5-year rate study	Thank you for the support.
	(h) Suggests including a list of systems removed from Comprehensive List and why they were removed in the annual IUP.	Division staff appreciates the comment. Removal is based not only on the length of time a project has been on the Comprehensive List, but on the responsiveness of the applicant. Removing unresponsive applicants from the Comprehensive List helps staff focus on those applications that are making progress. The Comprehensive List (CL) is open continuously, and projects can be re-added to the Comprehensive List at any time that applicants are ready to move forward.

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<b>(3) Leadership Counsel for Justice and Accountability; Community Water Center; and Clean Water Action (cont.)</b>	(i) It is suggested that the language for footnote 3 be amended to state "To establish and maintain DWSRF eligibility for the installation of a Private Lateral, an Eligible System will be the recipient of the state financing and will be tasked with working with the property owners for the installation of the Private Lateral and must ensure its operation and maintenance for its Useful Life."	Staff have revised the language to make it clearer.
	(j) Suggests integrating some DWSRF actions with CWSRF actions to better serve DACs that need help with wastewater projects	The Office of Sustainable Water Solutions currently identifies small disadvantaged communities with both drinking water and wastewater projects and when possible assigns both projects to the same Project Manager. This allows for one point of contact for the community and coordination between the DWSRF and CWSRF programs. Staff within the Office of Sustainable Water Solutions will continue to be crossed trained on both programs to continue to coordinate activities between the programs.
	(k) Requests the definition of Multiple Benefit Project and to integrate the concept into the priority system	The prioritization system is designed to give priority to projects that would solve public health problem(s) as the primary benefit, and within each ranked category, priority is given to disadvantaged communities and consolidation projects. The SWRCB is open to considering "multiple benefit project" as a priority factor when the need arises, and will consult with relevant stakeholders accordingly.
<b>(4) San Francisco Public Utilities Commission</b>	(a) Appreciates the chance to comment and the efforts of the SWRCB to revise the Policy. Supports the development of the new Credit/Financial Guidelines. Looks forward to continuing work with the SWRCB to explore opportunities that will ensure long-term stability and continued growth of California's SRF programs.	Thank you for the support.
	(b) Recommends adding "Material Debt" to Appendix E (Credit/Financial Guidelines) defined as "debt of the applicant secured by and repayable from the pledged source of repayment and can include public bond offerings, direct placements, loans, notes, and other forms of fixed interest rate and variable interest rate indebtedness"	The Credit/Financial Guidelines are intended to provide DFA flexibility in reviewing the credit of large borrowers. The guidelines were developed in cooperation with the DWSRF program's Financial Advisor. DFA staff will continue to work with stakeholders on these guidelines and, consistent with Policy requirements, will adjust the guidelines as they are implemented in the future. Staff recommends no changes at this point.
	(c) Recommends revision to Section B.1 of Credit/Financial Guidelines to change the "Aa or higher" rating cutoff to "AA-, Aa3 or higher" and in Section B.2 to change the "below Aa or is unrated private placement" to "below BBB- or Baa3 or is unrated material debt"	The Credit/Financial Guidelines are intended to provide DFA flexibility in reviewing the credit of large borrowers. The guidelines were developed in cooperation with the DWSRF program's Financial Advisor. DFA staff will continue to work with stakeholders on these guidelines and, consistent with Policy requirements, will adjust the guidelines as they are implemented in the future. Staff recommends no changes at this point.

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(4) San Francisco Public Utilities Commission (cont.)	(d) Recommends in the Credit/Financial Guidelines that a bond rating from one major rating agency, rather than two, should be sufficient	The Credit/Financial Guidelines are intended to provide DFA flexibility in reviewing the credit of large borrowers. The guidelines were developed in cooperation with the DWSRF program's Financial Advisor. DFA staff will continue to work with stakeholders on these guidelines and, consistent with Policy requirements, will adjust the guidelines as they are implemented in the future. Staff recommends no changes at this point.
	(e) Suggests adding to the Credit/Financial Guidelines Section A.3.a.viii stating "The Division may consider accepting a Recipients' alternative Debt Service Calculation assumptions." because they believe the SWRCB should allow some flexibility with how interest on a tax-exempt variable rate obligation is calculated	The Credit/Financial Guidelines are intended to provide DFA flexibility in reviewing the credit of large borrowers. The guidelines were developed in cooperation with the DWSRF program's Financial Advisor. DFA staff will continue to work with stakeholders on these guidelines and, consistent with Policy requirements, will adjust the guidelines as they are implemented in the future. Staff recommends no changes at this point.
	(f) Has concerns about the proposed revisions to Section IX "Water Rate Studies" because they typically adopt water rates on a four year basis and the new language would require them to increase that to eight years. They recommend removing the word "adopted" to give the Division of Financial Assistant (DFA) flexibility.	Staff appreciates the comment, and has adjusted the language of this section as suggested to reflect that applicants will need to demonstrate that they expect to have sufficient rates in place to operate and maintain their system after completion of the project. Additional language was added to ensure that the Division has authority to require that rate increases necessary for completing the project and maintaining an adequate budget be adopted before executing the agreement.